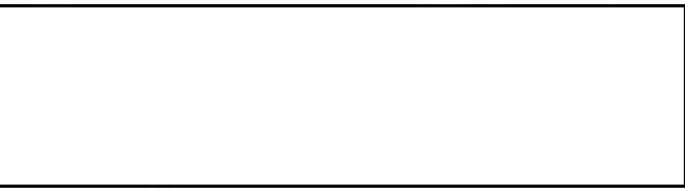


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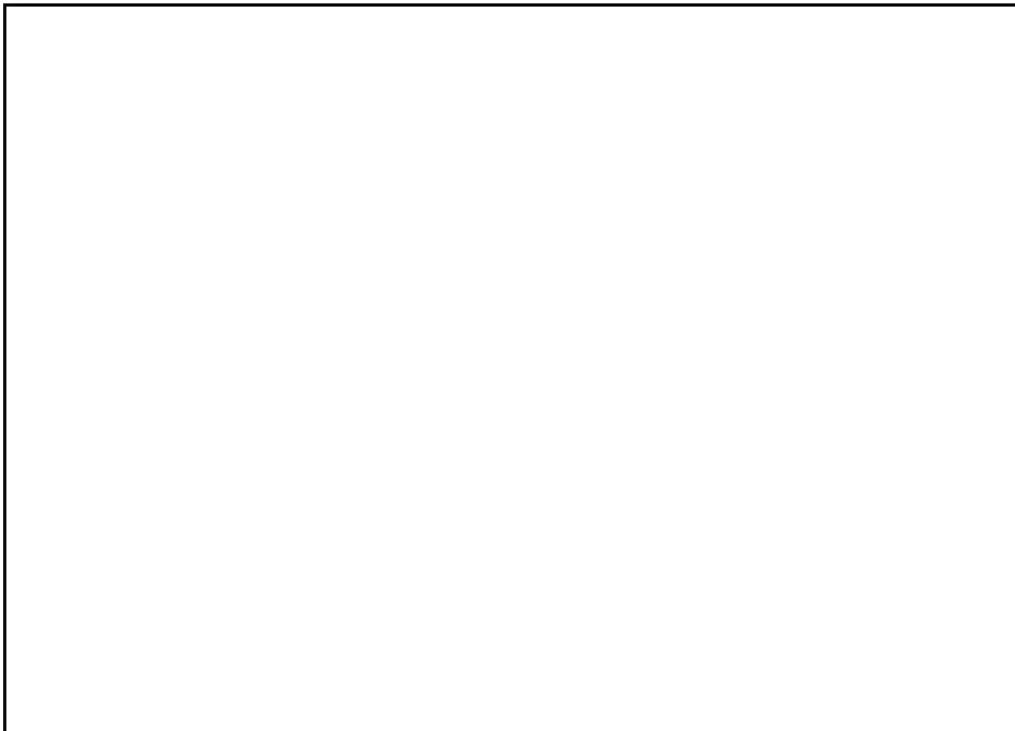
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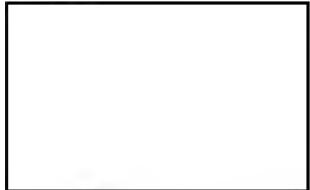
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**2. RESIGNATION OF ITALIAN VICE PREMIER SARAGAT
MAY LEAD TO GOVERNMENT CRISIS**

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A cabinet crisis may develop in Italy if Vice Premier Saragat resigns. He told reporters on 12 July that he had asked Premier Segni to "relieve him of his duties as soon as possible!" Saragat reportedly wants to devote full time to strengthening his control over the Democratic Socialist Party and combating the faction in the party which favors unity with the pro-Communist Nenni Socialists.

Christian Democratic Party secretary Fanfani, who was greatly disturbed by Saragat's statement, told the American chargé in Rome that if Saragat feels obliged to resign, an effort would be made to get agreement on replacing him by another Democratic Socialist, but that this would be very difficult because of intraparty jealousy.

Comment None of the coalition parties appears to want to upset the Segni government at this time. Should a crisis occur, it would probably involve a shift in personalities rather than a change in the present balance of party representation.

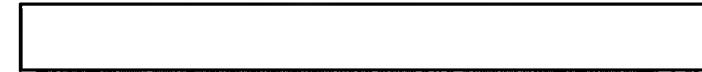
Saragat has frequently threatened to resign from the cabinet in the past, but has been persuaded to stay on. This time, however, he may be sufficiently concerned over challenges to his control of the party on such issues as the formation of municipal administrations to follow through with his resignation. He reportedly is dissatisfied with Matteotti, who replaced him as party secretary when he entered the cabinet. Matteotti has recently shown himself to be increasingly inclined to work toward a rapprochement with the Nenni Socialists.

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3. DISSATISFACTION WITH ADENAUER NOTED IN HIS PARTY

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The American embassy in Bonn reports increasing dissatisfaction in the Christian Democratic Party with Chancellor Adenauer's conduct of affairs, particularly on the issue of reunification. Other factors contributing to unrest within the party are the chancellor's controversy with Ministers Erhard and Schaeffer over financial policy and his treatment of Foreign Minister Brentano in the recent Bundestag foreign policy debate.

The embassy notes that current difficulties are probably not too large to be overcome by Adenauer's past adeptness at "pulling a rabbit out of the hat at a crucial time."

While recent public opinion polls indicate that reunification is now the principal problem in West Germany, the embassy expects no large-scale shift in votes because of Adenauer's policy. However, a shift of even 5 percent of the total vote--the approximate number of uncommitted voters--would make it possible for the opposition to form a government after the 1957 elections.

Comment

The Christian Democrats' dissatisfaction is mainly directed at Adenauer's tactical handling of current issues. The chancellor's unwillingness to consider the possibility of changed conditions in the USSR and of more relaxed policies toward the Orbit has provoked general criticism in and out of the party.

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4. PAKISTAN BUYS 60,000 TONS OF CHINESE COMMUNIST RICE

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Pakistan signed an agreement with Communist China on 13 July to buy 60,000 tons of rice to meet the food shortage in East Pakistan, according to a press report from Karachi.

Pakistan's decision to turn to Communist China may have been largely motivated by the availability of shipping for the Chinese rice. Earlier efforts to solve the food shortage have been frustrated by delays in the shipping of scheduled imports from the United States and Burma and by the high price of rice available in Thailand.

The Pakistani government expects the crisis in the food problem to come in July and August and has stated that it can break the back of the food shortage if it receives an additional 60,000 tons of rice during this period. Karachi is probably especially anxious to make a good showing since the army took over control of food distribution on 12 July.

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